

Advanced Management Program

Heavy Hitters

Tench Francis School of Business Presentation

Cost Effective Restructuring

12 March

2004 AMB



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Issue

➤ *Horizontal or vertical organizational restructuring: Which method is best? This paper discusses a systemic methodology for planning, executing and implementing an analysis of organizational restructuring as a result of budgetary constraints through the use*



12 March

2024 AMP



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Background

- **When commands are faced with restructuring due to budgetary constraints...experience shows that horizontal restructuring is used.**
 - **Applied equally to value and non-value functions**
 - **Practiced throughout DoD**

Navy FY04 OM&N Funding and Issue 68066 Reductions

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<u>CLAIMANT</u>	<u>\$ in Millions</u>	<u>FY04 OMN Funds</u>	<u>Issue 68066</u>
60 Commander, U.S. Atlantic Fleet	\$	6,130	\$ 30
70 Commander, U.S. Pacific Fleet	\$	5,814	\$ 28
52 Commander, Naval Installations	\$	4,525	\$ 21
24 Commander, Naval Sea Systems Command	\$	2,514	\$ 12
19 Commander, Naval Air Systems Command	\$	2,283	\$ 11
62 Commander, Naval Education and Training Command	\$	1,464	\$ 7
11 Director, Field Support Activity	\$	1,099	\$ 5
30 Director, Strategic Systems Programs	\$	833	\$ 4
39 Commander, Space and Naval Warfare Systems Command	\$	800	\$ 4
12 Assistant for Administration, UNSECNAV	\$	789	\$ 4
22 Chief of Naval Personnel	\$	438	\$ 2
23 Commander, Naval Supply Systems Command	\$	402	\$ 2
41 Director, Navy Systems Management Activity	\$	358	\$ 2
15 Director, Office of Naval Intelligence	\$	317	\$ 2
25 Commander, Naval Facilities Engineering Command	\$	290	\$ 1
69 Commander, Naval Security Group Command	\$	143	\$ 1
61 Commander, U.S. Naval Forces Europe	\$	82	\$
18 Chief, Bureau of Medicine and Surgery	\$	24	\$
Total	\$	28,306	\$ 137

12 March

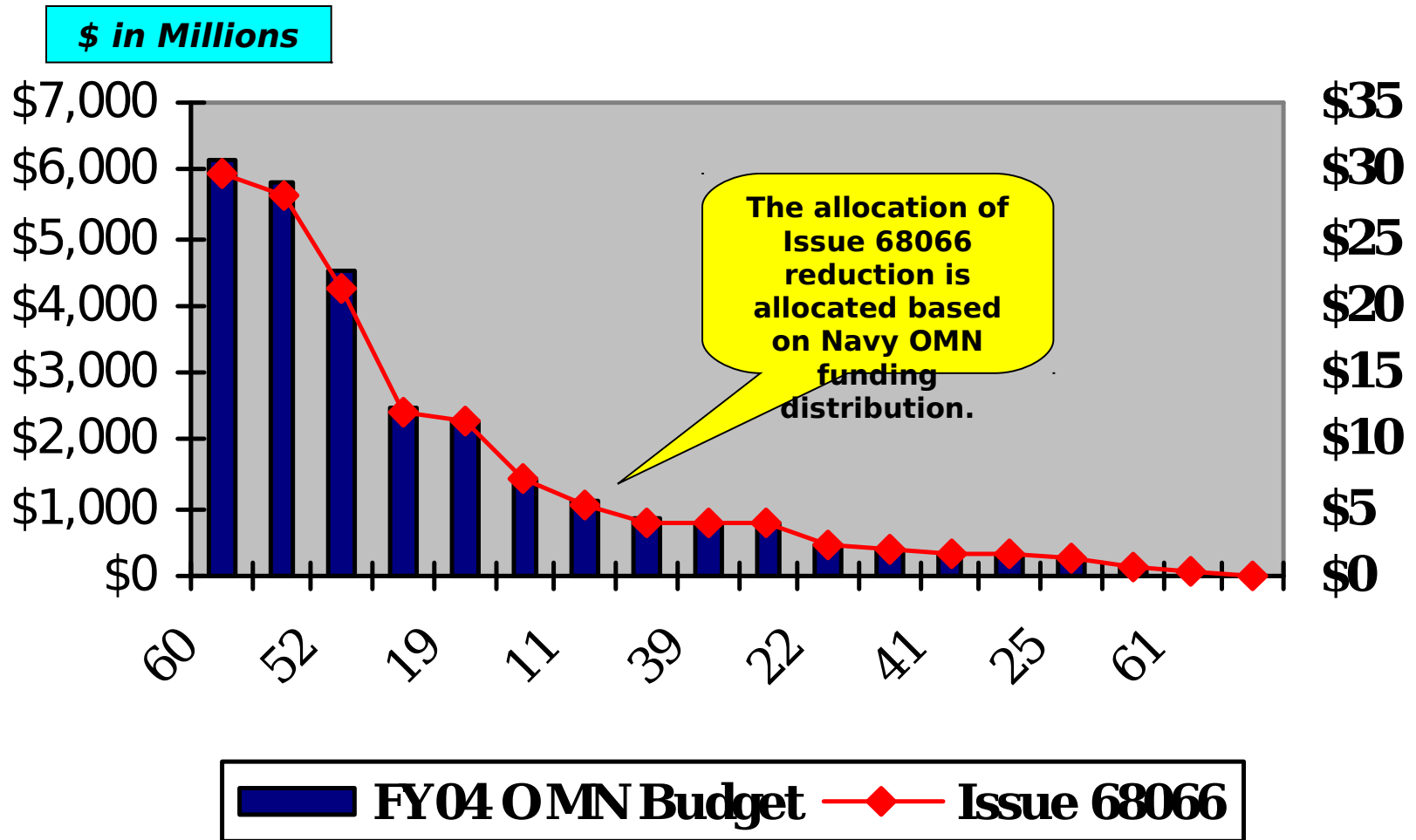
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Funding and Reduction Distribution

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COMLANTFLT FY04 OMN

Funding And Issue 68066

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COMLANTFLT		\$ in Millions	FY04	Issue 68066
1B4B	Ship Depot Maintenance		1,766,069	8,585
1A1A	Mission and Other Flight Operatio		1,480,549	7,183
1B1B	Mission and Other Ship Operations		1,138,952	5,556
1A2A	Fleet Air Training		446,987	2,162
1C5C	Op Meteorology & Oceanography		252,744	1,215
1C6C	Combat Support Forces		207,311	1,009
4A6M	Service-wide Communications		174,840	885
2A1F	Ship Prepositioning and Surge		152,464	743
1C4C	Warfare Tactics		133,881	645
1B5B	Ship Depot Operations Support		131,448	623
1C1C	Combat Communications		119,229	590
1C3C	Space Systems & Surveillance		57,970	279
1B2B	Ship Operational Support and Trai		57,778	277
4C0P	Security Programs		4,860	19
1A3A	Intermediate Maintenance		4,067	20
4A2M	External Relations		403	2
Total			6,129,552	29,793

12 March

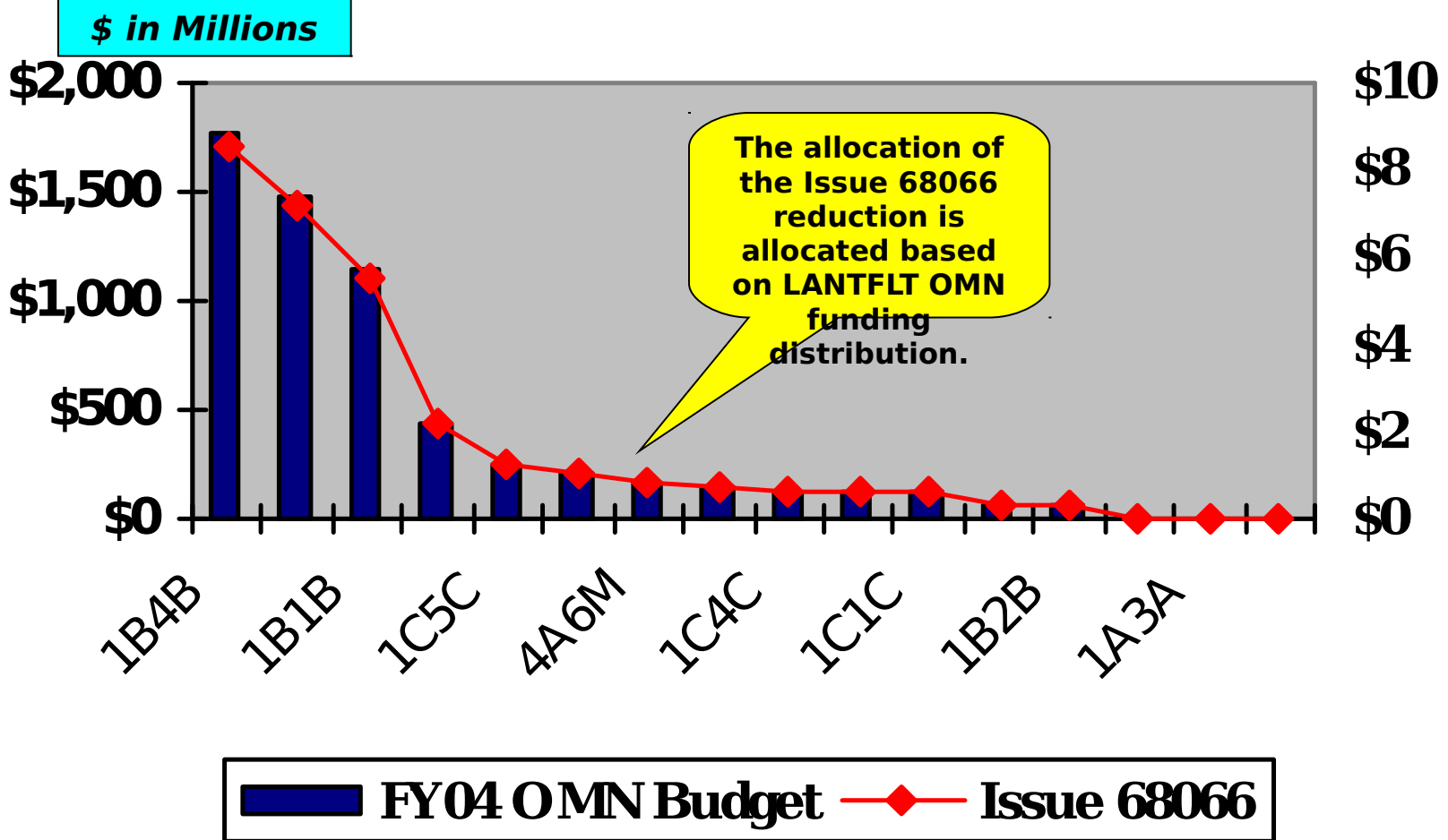
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COMLANTFLT Funding Distribution & Reduction Distribution

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Background

- **When commands are faced with restructuring due to budgetary constraints...experience shows that horizontal restructuring is used.**
 - **Applied equally to value and non-value functions**
 - **Practiced throughout DoD**
- **Application of vertical restructuring allows for better command decisions.**
 - **Enables continued funding of core / value added functions**
 - **Focus reductions in non-core / non-value functions**

Horizontal Restructuring

Horizontal Cut Displacement - Application of organizational restructuring is applied uniformly across all departments based on a standard methodology.ie, funding percentages

➤**Advantages:**

- ***Very easy to apply***
- ***Limited analysis of cost required***
- ***Assumption can be made that all departments have excess capacity of funds***

➤**Disadvantages:**

- ***No distinction between value added and non-value added functions***
- ***Reductions are applied uniformly across the board***
- ***Does not promote effective utilization of resources***

Vertical Restructuring

Vertical Cut Displacement – Application of organizational restructuring is applied only to specific departments, divisions, or functions

➤ **Advantages:**

- ***Reductions only applied to non-value added functions***
- ***Decisions based on command's mission, vision and true cost***
- ***Enables effective management of resources***

➤ **Disadvantages:**

- ***Requires application of models for analysis (Quad; ABC)***
- ***More labor intensive***
- ***More time consuming***
- ***More expensive***

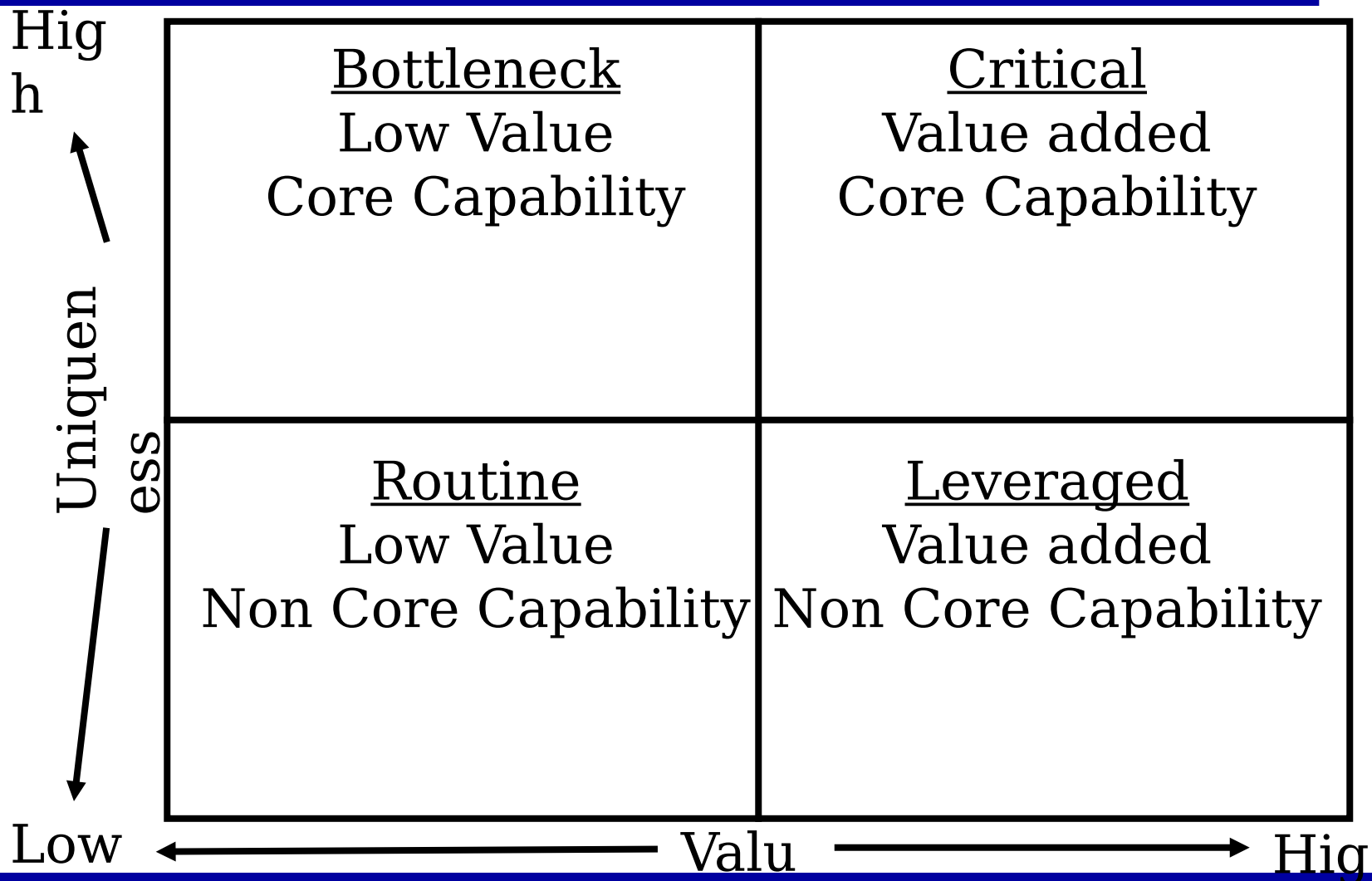
Implementation Strategies - Quad Model

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- **Initially designed to assist supply chain management**
 - **Allows organizations to evaluate functions and processes within command**
 - *Core and Non-Core capabilities*
 - *Value added and Non-Value added functions*
 - **Allows for sound business decisions based on...**
 - *Core and Non-Core capabilities*
 - *Value added and Non-Value added functions*
-



QUAD Model



Implementation Strategies

Activity Based Costing (ABC)

Allows an organization to determine Actual Cost associated with each product or service

- *Organizations can see actual cost of activity, function, department, division, etc.*
 - *Allows for opportunity to streamline*
 - » *Reduce cost*
 - » *Eliminate if no-value added*
 - *Requires detailed costing and allocation of costs for determination*
- *Enables organizations to effectively manage resources*
-

Where do we go????

~~*Conclusion/Recommendation*~~

There is no absolute methodology for restructuring

“There are alternatives that allow for better effective management and decision making”

- **Vertical cut methodology allows for better value added decisions**
 - *Time consuming and costly*
- **Quad Model and Activity Based Costing can provide management with the tools that allow for better cost effective restructuring**